Q4 and Fiscal 2023 Earnings Conference Call Prepared Remarks

Operator

Ladies and gentlemen, good afternoon.

At this time, I would like to welcome everyone to QuickLogic Corporation's Fourth Quarter and Fiscal 2023 Earnings Results Conference Call. As a reminder, today's call is being recorded for replay purposes through February 27, 2024. I would now like to turn the conference over to Ms. Alison Ziegler of Darrow Associates. Ms. Ziegler, please go ahead.

Alison Ziegler

Thank you, operator, and thanks to all of you for joining us. Our speakers today are Brian Faith, President and Chief Executive Officer, and Elias Nader, Senior Vice President, and Chief Financial Officer.

As a reminder, some of the comments QuickLogic makes today are forward-looking statements that involve risks and uncertainties, including but not limited to stated expectations relating to revenue from new and mature products; statements pertaining to QuickLogic's future performance, design activity and its ability to

convert new design opportunities into production shipments; timing and market acceptance of its customers' products; schedule changes and production start dates that could impact the timing of shipments; the company's future evaluation systems; broadening the number of our ecosystem partners; and expected results and financial expectations for revenue, gross margin, operating expenses, profitability and cash.

Actual results or trends may differ materially from those discussed today. For more detailed discussions of the risks, uncertainties and assumptions that could result in those differences, please refer to the risk factors discussed in QuickLogic's most recently filed periodic reports with the SEC. QuickLogic assumes no obligation to update any forward-looking statements or information, which speak as of the respective dates of any new information or future events.

In today's call we will be reporting non-GAAP financial measures. You may refer to the earnings release we issued today for a detailed reconciliation of our GAAP to non-GAAP results and other financial statements. We have also posted an updated financial table on our IR web page that provides current and historical non-GAAP data.

Please note, QuickLogic uses its website, the company blog, corporate Twitter account, Facebook page, and LinkedIn page as channels of distribution of information about its business. Such information may be deemed material information, and QuickLogic may use these channels to comply with its disclosure obligations under Regulation FD.

A copy of the prepared remarks made on today's call will be posted on QuickLogic's IR web page shortly after the conclusion of today's earnings call.

I would now like to turn the call over to Brian.

Brian– Chief Executive Officer

Thank you, Alison. Good afternoon everyone and thank you all for joining our fourth quarter fiscal 2023 conference call.

Q4 revenue increased 83% year-over-year to $7.5 million. This growth was driven by record high IP revenue.

Full-year revenue increased 31% to $21.2 million. New products represented 86% of total revenue in 2023, up from 72% of total revenue in 2022. We believe the percentage of new product revenue which is driven mostly by IP contracts will increase again in 2024.

We set several new all-time records for QuickLogic in 2023. These include new quarterly records for Non-GAAP operating profit and non-GAAP net profit set in Q4 and for the full year. We also set new records for Non-GAAP operating margin and Non-GAAP net profit margin. Based on our outlook for greater than 30% revenue growth in 2024, which is well-supported by our record $168 million opportunity funnel, we anticipate eclipsing those records this year.

The short story here is the IP business model we launched in 2020 is delivering strong results. Over the last three years, we have delivered a top-line growth of 146%, increased our Non-GAAP gross profit dollars by over 230%, and with a modest decrease in Non-GAAP operating expenses, improved our operating leverage by over 250%. With this performance, a profitable year now under our belt, and an outlook for continued growth driven mostly by new IP customers, I think it's fair to say our IP business model has developed solid traction.

Let's take a few minutes now to update the status for some of our major contracts:

Last August, we announced the award of the second phase of our government contract, that has a total potential of $72 million. This phase added Honeywell Aerospace as a foundry partner, and increased the funding from phase one levels to bring Honeywell up to speed quickly. Phase two also funded our continued activity with SkyWater Technologies™. In our growth projections for 2024, we are modeling a return to the funding rate of phase one for the next phase of this contract. This outlook may prove to be conservative, but providing conservative projections is our goal.

While we are highly confident of achieving our 30%+ growth objective in 2024, the timing and cadence of large IP contracts and a strategic shift in how we allocate revenue between engineering services and IP will push the recognition of certain revenue into the second half of 2024.

It is important to note this shift in allocation does not impact or delay our cash flow from IP contracts. Cash flow from IP contracts will remain as it has been in past years. This shift simply better aligns revenue with the value of our deliverables and improves our ability to effectively negotiate and win future contracts.

Beyond building on the success of our large government contract, we are very well positioned to significantly expand our IP business across many new customers and market sectors, as well as the number of fabrication nodes supported by our IP in 2024.

During the first two months of 2024 we have already booked one significant contract with a new IP customer and believe we will have a second one booked later this week.

These two contracts, and others we believe we will book in the coming months, will contribute to cash flow throughout 2024. However, revenue will not be recognized

on our income statement until the second half of the year. I would like to provide a little more color on both of these designs.

The first new contract that we've finalized already this year is exciting and, we believe, indicative of forward design trends that favor the incorporation of eFPGA technology. I cannot go into as much detail on this design, but I can share it is a new Defense Industrial Base customer and the application is not related to our large government contract. This design will be fabricated by GlobalFoundries on its low power 12nm process known as 12LP. We believe there will be opportunities to expand our engagement with this customer going forward.

The second of the contracts is with a large company that I'm sure you would recognize. This design is for a new ultra-low-power SoC that is targeting a variety of commercial and industrial IoT applications as well as aerospace and defense applications outside the U.S. This design has been referenced in prior calls as government funded and will be fabricated by TSMC on its 12nm process.

Within the SoC, our eFPGA technology is used for AI acceleration, which is a necessary function in most AI applications. We believe this will prove to be a rapidly growing application that is often better served by FPGA technology than a

processor running the acceleration algorithms in software. If you'll forgive me for diverging into a little tech-talk, I'll briefly explain why this is the case.

Acceleration is accomplished by processing data using an algorithm. Because acceleration is very important and can provide key competitive advantages for our customers, these acceleration algorithms are constantly refined and changed. Due to this, the semiconductor device tasked with running the algorithms must be able to adapt to changes in algorithms. Since it is impossible for a fixed ASIC to adapt to these changes, the only two ways to support the requirement are a processor or programmable logic, which is most commonly accomplished today with FPGA technology.

The challenge here is that while these acceleration algorithms can run in a processor and the processor can be reprogrammed for algorithm changes, processors are inherently slower and consume far more power than pure hardware solutions like FPGAs. In this particular application, the priority was the lowest possible power consumption, and that is what led the customer to select our ultra-low-power eFPGA IP. As AI expands into edge applications, we believe this will be a common application for eFPGA that we are very well positioned to address.

In November 2022, I shared that we had taped out a new device for a customer that incorporates our eFPGA IP. Due to strict confidentiality requirements, I can't share more details on the specific design win beyond a brief update.

We continued our work on this design during 2023 and it contributed revenue throughout the year including Q4. The customer is now working through certain aspects of the design. We believe this will take a couple of quarters and that our activity will resume during the second half of 2024. This customer could represent tens of millions of dollars in potential device revenue starting in a couple of years.

Last September, we announced a leading technology company chose our eFPGA IP for a design that will be fabricated using GlobalFoundries™ 22FDX platform. Again, due to strict confidentiality requirements, I cannot go into more detail on the design, but I can share that we are on schedule to deliver our IP during this quarter.

Last November, we announced a global semiconductor leader chose our eFPGA IP for a design that will be fabricated on UMCs 22nm platform. We are on schedule to deliver our IP for this design during this Q1.

In total, we will be on contract to either deliver or begin development of our IP on six different foundry / process technology combinations this quarter. This is up 3X from a year ago, demonstrating the market demand for eFPGA IP is accelerating and that the automation from our Australis IP Generator enables us to address the demand in a scalable way.

I continue to be encouraged by the early steps we took to capitalize on the rising Chiplet market, and I am not at all surprised to see it as headline news today. Chiplet architectures enable customers to much more cost effectively incorporate FPGA into new designs. The research firm Market US, recently released its 10-year forecast projecting the Chiplet market will grow from only a few billion dollars in 2023 to $107 billion in 2033. That represents a ten-year CAGR of over 42%, and I believe we are very well positioned to capitalize on this growth!

We have several Chiplet opportunities in our funnel including deals with our partner, YorChip. As a matter of fact, we submitted a proposal to one customer earlier this month and have another on tap that we expect to submit later in the first half.

Our lead smartphone customer has worked through its excess inventory of EOS S3 and we resumed shipping during Q4 to support production. We expect the volume to increase in 2024 as our EOS S3 solution was selected for new designs that will ship into 2025. We are also forecasting modest increases in display bridge shipments this year and expect mature product revenue will be similar to what it was in 2023.

The private label agreement that SensiML established last quarter with a leading MCU company is building traction, but not yet delivering revenue. The MCU company has established end-customer engagements and SensiML has established some notable engagements independently. We are optimistic that these and future engagements will lead to a material increase in SensiML revenue in 2024.

With that, let me now turn the call over to Elias for a review of the financial results, and I will rejoin for our closing remarks. Elias, please go ahead.

Elias– Chief Financial Officer

Thank you, Brian and good afternoon everyone.

Revenue was slightly above the midpoint of our guidance range and drove record Q4 Net Income, bringing the full year 2023 to record profitability on a Non-GAAP basis.

Specifically, revenue in Q4 was $7.5 million, up 12% from the third quarter and up 83% from the fourth quarter of 2022. Our results benefited from higher eFPGA IP license and professional services revenue with another full quarter of the second phase of the large eFPGA contract as well as higher smart connectivity and sensor product revenue.

Within our Q4 revenue, sales of new products were approximately $6.8 million. This compares to $6.1 million last quarter (up 12%) and $2.8 million in the fourth quarter of 2022 (up 140%). Mature product revenue was approximately $0.7 million, an increase of 15% from $0.6 million last quarter although down from $1.2 million in Q4 last year.

Non-GAAP gross margin in Q4 was 78.3% compared with 78.0% in the third quarter of 2023 and 53.2% in the fourth quarter of 2022. The strong gross margins in the last two quarters resulted from the higher revenue level and a change in the mix of deliverables within eFPGA-related revenue to a higher percentage of professional services as well as continued cost controls.

Our Non-GAAP operating expenses in Q4'23 were approximately $3,1 million. This compares with non-GAAP operating expenses of $3.3 million last quarter and $2.4 million in the fourth quarter a year ago. Non-GAAP operating expenses were lower than our outlook due to the timing of certain payments and the classification of certain professional services to COGS.

Non-GAAP net income was a record $2.6 million, or $0.18 cents per diluted share. This compares to non-GAAP net income of $1.8 million, or $0.13 cents per share, last quarter, and a non-GAAP net loss of $544 thousand, or $0.04 cents per share, in the fourth quarter of fiscal 2022.

Now turning to the full year fiscal 2023 results. Total revenue was $21.2 million, up 31% from $16.2 million in fiscal 2022. New product revenue was $18.2 million compared to $11.7 million in the prior year. The increase was primarily driven by higher eFPGA IP and professional services that offset decreases in Smart Connectivity and EOS S3 revenue caused by customers digesting excess inventory. As Brian noted, we saw some rebound in new silicon revenue during Q4 and expect this trend to continue during 2024.

Mature product revenue was $3.0 million compared to $4.5 million in fiscal 2022. We anticipate mature product revenue in 2024 will be similar to 2023.

For the full fiscal year 2023, we had one customer that accounted for 10% or more of our revenue.

Non-GAAP Gross margin for 2023 was 69.8% compared to 56.1% in 2022. The year-over-year increase was primarily due to the higher revenue level, a change in the mix of deliverables, the capitalization of certain long-lived investments and continued cost controls.

And while revenue was up 31% from the prior year, non-GAAP operating expenses increased approximately 13% to $12.2 million from $10.8 million in 2022 as we continue to maintain effective expense controls.

The combination of strong revenue growth and controlled operating expenses translated into record non-GAAP net income of $2.3 million, or $0.17 per share, compared to a non-GAAP net loss of $2.2 million in 2022.

Total cash at the end of 2023 was $24.6 million, compared with $19.2 million at year end 2022. This is inclusive of our newly amended and restated credit facility that was increased from $15 million to $20 million and extended to the end of 2025. Net cash increased by approximately $1 million sequentially.

Now moving to our guidance for the first quarter of fiscal 2024, which will end on March 31, 2024.

Revenue guidance for Q1 2024 is approximately $6.2 million, plus or minus 10%, which is up 50% over Q1 2023. First quarter revenue is expected to be comprised of approximately $5.1 million of new products, which is a year-over-year increase of 67%, and $1.1 million of mature products, which is essentially flat with last year.

The sequential revenue decline from Q4 2023 is due to the timing and cadence of large IP contracts and a strategic shift that allocates a higher percentage of contract revenue to IP versus engineering services to better align with the value of our deliverables. While this will result in shifting certain revenue recognition to the second half of the year, it is not expected to impact the timing of cash flow from these contracts.

For the full year 2024, we expect to grow revenue by more than 30% and generate positive cash flow.

Based on the anticipated Q1 revenue mix, non-GAAP gross margin for the quarter is expected to be approximately 70%, plus or minus 5 percentage points.

Our non-GAAP operating expenses will be approximately $3.5 million, plus or minus 10.0%. We believe quarterly non-GAAP OpEx will remain in the $3.5 million range this year with occasional increases to support new programs.

Please keep in mind that given our industry, we may be required to reclassify certain expenses to COGS or capitalize certain costs at times. The reclassifications are primarily related to labor and tooling for our revenue contracts with customers. Capitalization may reduce OPEX and change the timing for recognizing the corresponding expenses in COGS. This may cause variability in our gross margins and operating results. With these variables in mind, we believe our full-year 2024 non-GAAP gross profit margin will be in the upper 60% range.

After interest, other income and taxes, we currently forecast that our Q1 non-GAAP net income will be approximately $0.5 million to $1.1 million, or $0.03 to $0.08 per share, based on roughly 14.4 million fully diluted shares. We believe we are well positioned to deliver strong profitability for the full year 2024.

The difference between our GAAP and non-GAAP results is related to non-cash, stock-based compensation expenses. In Q1, we expect this compensation will be approximately $0.7 million. As a reminder, there will be movement in our stock-

based compensation during the year and it may vary each quarter based on the timing of grants to employees.

With investments this quarter to support the new design wins that we have discussed, including hiring critical Engineering and Sales roles and the timing of certain payments, at the midpoint, we expect cash usage to be less than $1.0 million in Q1. These investments are in anticipation of continued strong growth in 2024 and timed with the signing of new contracts for design wins.

As I noted earlier, we are on track to be cash flow positive for the full year 2024.

Thank you. With that, let me now turn the call back over to Brian for his closing remarks.

Brian– Chief Executive Officer

Thank you, Elias. The amazing team I get to work with every day has, in only three years, driven the development of a successful, profitable and high-growth IP Business Model. Thank you all for your hard work and dedication.

We have also maintained our core capabilities as a silicon supplier that we will more fully leverage in our Storefront and other device orientated strategies going forward. This ability to provide turnkey solutions for our IP customers sets us apart from our competition.

Since launching our IP Business Model in 2020, we've grown non-GAAP gross profit dollars by over 230% and, with a modest reduction in non-GAAP op/ex, our operating leverage has increased by a remarkable 251%. While this performance marks a great turnaround story, I think the best is yet to come!

We exited 2023 with not only solid traction, but also momentum. We have already booked one significant contract with a new IP customer and have a second to be booked later this week. We have also realized net funnel growth to a record $168 million. This is a sterling example of the old adage that success breeds success. As new bookings grow, so do new opportunities.

While we expect 2024 will be a year of strong growth, profitability and positive cash flow that is driven mostly by new IP customers, we also believe that royalty and storefront revenue will soon be visible on the horizon to accelerate our growth in future years. With that, I would like to open the call for questions.